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**ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III**

SEC FILE NUMBER
8-49765

FACING PAGE

**Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**REPORT FOR THE PERIOD BEGINNING 01/01/05 AND ENDING 12/31/05  
MM/DD/YY MM/DD/YY**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: AETHLON CAPITAL, LLC

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

4920 IDS CENTER, 80TH SOUTH 8TH STREET

(No. and Street)

MINNEAPOLIS

MN

55402

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

SIMA GRIFFITH(612) 677-1339

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

VIRCHOW, KRAUSE & COMPANY, LLP

(Name - if individual, state last, first, middle name)

7900 XERXES AVENUE SOUTH, SUITE 2400, MINNEAPOLIS, MN

55431

(Address)

(City)

(State) (Zip Code)

CHECK ONE:

☒ Certified Public Accountant☐ Public Accountant☐ Accountant not resident in United States or any of its possessions.

PROCESSED

JUN 12 2006

THOMSON  
FINANCIAL**FOR OFFICIAL USE ONLY**

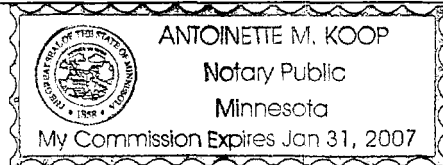
\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

SEC 1410 (06-02)

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# OATH OR AFFIRMATION

I, SIMA GRIFFITH, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of AETHLON CAPITAL, LLC, as of DECEMBER 31, 2005, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:



S- [Signature]  
Signature  
Managing Principal  
Title

Antoinette M. Koop  
Notary Public

This report \*\* contains (check all applicable boxes):

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of ~~CASH FLOWS~~ CASH FLOWS.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- ☐ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

**\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).**

# AETHLON CAPITAL, LLC

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## INDEPENDENT AUDITORS' REPORT

Board of Governors  
Aethlon Capital, LLC  
Minneapolis, Minnesota

We have audited the accompanying statements of financial condition of Aethlon Capital, LLC (a limited liability company) as of December 31, 2005 and 2004, and the related statements of operations, member's equity and cash flows for the years then ended that you are filing pursuant to rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Aethlon Capital, LLC as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information contained in the schedule presented on page 9 is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Virchow, Krause & Company, LLP*

Minneapolis, Minnesota  
January 25, 2006

# **AETHLON CAPITAL, LLC**

## **STATEMENTS OF FINANCIAL CONDITION December 31, 2005 and 2004**

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<b>ASSETS</b>		
	<u>2005</u>	<u>2004</u>
<b>CASH</b>	\$ 32,535	\$ 73,147
<b>COMMISSIONS RECEIVABLE</b>	7,145	24,445
<b>PREPAID EXPENSES</b>	4,160	3,655
<b>EQUIPMENT AND FURNITURE, NET</b>	<u>11,876</u>	<u>10,166</u>
<b>TOTAL ASSETS</b>	<u>\$ 55,716</u>	<u>\$ 111,413</u>
 <b>LIABILITIES AND MEMBER'S EQUITY</b>		
<b>LIABILITIES</b>		
Accrued expenses	\$ 15,493	\$ 19,159
<b>MEMBER'S EQUITY</b>	<u>40,223</u>	<u>92,254</u>
<b>TOTAL LIABILITIES AND MEMBER'S EQUITY</b>	<u>\$ 55,716</u>	<u>\$ 111,413</u>

See accompanying notes to financial statements.

# AETHLON CAPITAL, LLC

## STATEMENTS OF OPERATIONS Years Ended December 31, 2005 and 2004

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	<u>2005</u>	<u>2004</u>
<b>REVENUES</b>	<u>\$ 380,000</u>	<u>\$ 484,831</u>
<b>EXPENSES</b>		
Salaries and commissions	99,821	138,027
Payroll taxes and other employee benefits	17,987	12,343
Occupancy costs	50,494	45,333
Other administrative expenses	<u>122,125</u>	<u>94,723</u>
Total expenses	<u>290,427</u>	<u>290,426</u>
<b>NET INCOME</b>	<u>\$ 89,573</u>	<u>\$ 194,405</u>

See accompanying notes to financial statements.

## AETHLON CAPITAL, LLC

### STATEMENTS OF MEMBER'S EQUITY Years Ended December 31, 2005 and 2004

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<b>BALANCE, December 31, 2003</b>	\$	42,849
2004 net income		194,405
Member distributions		<u>(145,000)</u>
<b>BALANCE, December 31, 2004</b>		92,254
2005 net income		89,573
Member distributions		<u>(141,604)</u>
<b>BALANCE, December 31, 2005</b>	\$	<u>40,223</u>

See accompanying notes to financial statements.

# AETHLON CAPITAL, LLC

## STATEMENTS OF CASH FLOWS Years Ended December 31, 2005 and 2004

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	<u>2005</u>	<u>2004</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 89,573	\$ 194,405
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation	2,081	466
Changes in operating assets and liabilities:		
Commissions receivable	17,300	1,868
Prepaid expenses	(505)	140
Accrued expenses	<u>(3,666)</u>	<u>12,697</u>
Net Cash Flows from Operating Activities	<u>104,783</u>	<u>209,576</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of equipment	<u>(3,791)</u>	<u>(10,632)</u>
Net Cash Flows from Investing Activities	<u>(3,791)</u>	<u>(10,632)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Distributions to member	<u>(141,604)</u>	<u>(145,000)</u>
Net Cash Flows from Financing Activities	<u>(141,604)</u>	<u>(145,000)</u>
<b>Net Change in Cash</b>	(40,612)	53,944
CASH - Beginning of Year	<u>73,147</u>	<u>19,203</u>
<b>CASH - END OF YEAR</b>	<u>\$ 32,535</u>	<u>\$ 73,147</u>

See accompanying notes to financial statements.



# AETHLON CAPITAL, LLC

## NOTES TO FINANCIAL STATEMENTS December 31, 2005 and 2004

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### NOTE 1 - Summary of Significant Accounting Policies

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#### *Nature of Business*

Aethlon Capital, LLC (the Company) was formed in October 1996 as a limited liability company under Chapter 322B of the Minnesota statutes. The Company will continue until October 30, 2026 unless terminated prior to that time.

The Company is a licensed securities broker-dealer and specializes in providing investment banking services for public and private emerging growth companies. Services provided include private placement of equity or debt, general corporate finance advisory services and investor relations.

The Company is a member of the Securities Investors Protection Corporation (SIPC) and the National Association of Securities Dealers (NASD).

#### *Cash*

The Company maintains its cash in high quality financial institutions and money market mutual funds. The balances, at times, may exceed federally insured limits.

#### *Commissions Receivable*

Commissions receivable are unsecured and do not accrue interest. No allowance for doubtful accounts is considered necessary at December 31, 2005 and 2004.

#### *Equipment and Furniture*

Equipment and furniture are being depreciated using straight-line and accelerated methods over estimated useful lives of 5 to 7 years.

#### *Revenue Recognition*

The Company's revenues during 2005 and 2004 were derived from consulting fees and commissions from private placements. Consulting fees are nonrefundable deposits received during the initial stages of a private placement. Consulting fees are deductible against the total commissions to be received upon the closing of a placement. Consulting fees are recognized upon receipt. Commission revenue is recognized at the time of the placement's closing.

#### *Advertising*

Advertising costs are charged to operations when incurred. Advertising expense was \$7,931 and \$2,969 for the years ended December 31, 2005 and 2004.

#### *Income Taxes*

The Company is a limited liability company for income tax purposes. Accordingly, these financial statements do not include any provision for income taxes since the income and expenses are reported on the individual income tax returns of the sole member and the applicable income taxes, if any, are paid by the member.

# AETHLON CAPITAL, LLC

## NOTES TO FINANCIAL STATEMENTS December 31, 2005 and 2004

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### NOTE 1 - Summary of Significant Accounting Policies (cont.)

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#### *Management's Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and revenue and expenses during the reporting period. Actual results could differ from those estimates.

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### NOTE 2 - Net Capital Requirements

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The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule 15c3-1, which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. Net capital and the related net capital ratio fluctuate on a daily basis. At December 31, 2005 and 2004, the Company had net capital of \$17,042 and \$53,988 which was \$12,042 and \$48,988 in excess of its required net capital of \$5,000. The Company's net capital ratio was .91 to 1 and .35 to 1 at December 31, 2005 and 2004.

No material differences exist between the net capital calculated above and the net capital computed and reported in the Company's December 31, 2005 amended FOCUS filing. Per Rule 15c3-3 of the Securities and Exchange Commission Uniform Net Capital Rule, the Company is exempt under the (k)(2)(i) exemption.

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### NOTE 3 - Equipment and Furniture

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Equipment and furniture consisted of the following at December 31:

	2005	2004
Equipment and Furniture	\$ 36,244	\$ 32,453
Less Accumulated Depreciation	(24,368)	(22,287)
	<u>\$ 11,876</u>	<u>\$ 10,166</u>

Depreciation expense was \$2,081 and \$466 for the years ended December 31, 2005 and 2004.

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### NOTE 4 - Employee Benefit Plan

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The Company adopted a simplified employee pension plan in 1999. Contributions to the plan by the Company are discretionary. Employer contributions were \$2,188 and \$- for the years ended December 31, 2005 and 2004.

# AETHLON CAPITAL, LLC

## NOTES TO FINANCIAL STATEMENTS December 31, 2005 and 2004

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### NOTE 5 - Significant Customers

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One customer accounted for 80% of total revenues for the year ended December 31, 2005. That same customer accounted for 12% of total revenues for the year ended December 31, 2004. Two additional customers accounted for approximately 73% of total revenues for the year ended December 31, 2004.

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### NOTE 6 - Leases

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The Company entered into a noncancelable operating lease for office space. The lease expires May 2010 and requires monthly base rents of \$2,702 which increase annually over the term of the lease to \$2,866. In addition, the Company is required to pay its pro rata share of the building's property taxes and operating expenses. The Company also leases a vehicle under a lease that expires December 2006. Monthly rent is \$627. Total rent expense, including operating expenses, was approximately \$49,000 and \$45,200 for the years ended December 31, 2005 and 2004.

Future minimum rental commitments are as follows for the years ending December 31:

2006	\$	39,609
2007		33,200
2008		33,692
2009		34,182
2010		14,328
	\$	<u>155,011</u>

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### NOTE 7 - Contingency

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During 2005, a former employee filed a claim against the Company for unpaid compensation. The former employee has asked for a combination of cash and the assignment of warrants to settle her claim. The claim is currently in the mediation process. As of December 31, 2005, no settlement had been reached. The Company intends to defend itself in this matter. The potential liability or outcome cannot be determined at this time.

## AETHLON CAPITAL, LLC

### COMPUTATION OF NET CAPITAL AND AGGREGATE INDEBTEDNESS UNDER RULE 15C3-1 OF THE SECURITIES AND EXCHANGE COMMISSION December 31, 2005

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#### COMPUTATION OF NET CAPITAL

Member's equity		\$	40,223
Deductions and/or charges:			
Non-allowable assets:			
Commissions receivable	\$	7,145	
Prepaid expenses		4,160	
Equipment and furniture, net		<u>11,876</u>	<u>23,181</u>
Net capital before haircuts on securities positions			17,042
Haircuts on securities positions			<u>-</u>
Net capital		\$	<u>17,042</u>

#### COMPUTATION OF AGGREGATE INDEBTEDNESS

Total liabilities from statement of financial condition	\$	<u>15,493</u>
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#### COMPUTATION OF BASIC NET CAPITAL REQUIREMENT

Minimum net capital requirement	\$	<u>5,000</u>
Excess net capital at 1,500 percent	\$	<u>12,042</u>
Excess net capital at 1,000 percent	\$	<u>15,493</u>
Ratio: Aggregate indebtedness to net capital		<u>.91 to 1</u>

#### RECONCILIATION WITH COMPANY'S COMPUTATION

Net capital, as reported in Company's Part II amended FOCUS report, Form X-17a-5 (unaudited)	\$	17,042
Audit adjustments		<u>-</u>
Net capital per above	\$	<u>17,042</u>



## **INDEPENDENT AUDITORS' SUPPLEMENTARY REPORT ON INTERNAL ACCOUNTING CONTROL**

Board of Governors  
Aethlon Capital, LLC  
Minneapolis, Minnesota

In planning and performing our audit of the financial statements and supplemental schedule of Aethlon Capital, LLC (the Company) for the year ended December 31, 2005, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

Also, as required by rule 17a-5(g)(1) of the Securities Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company including tests of such practices and procedures that we considered relevant to the objectives stated in rule 17a-5(g) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examinations, counts, verifications, and comparisons and recordation of differences required by rule 17a-13
2. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System
3. Obtaining and maintaining physical possession or control of all fully paid and excess margin securities of customers as required by Rule 15c3-3

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control or the practices and procedures referred to above, errors or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving the internal control, including control activities for safeguarding securities, that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2005, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Governors, management, the SEC, and other regulatory agencies which rely on rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

*Vickson, Krause & Company, LLP*

Minneapolis, Minnesota  
January 25, 2006